MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BFN 3114 – TAX PLANNING

(All Groups)

17 OCTOBER 2015
2.30pm-4.30pm
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 11 (eleven) pages with 4 (four) Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) In relation to section 3 of the Income Tax Act 1967 (as amended), briefly explain the scope of charge to income tax.

(5 marks)

(b) Mr. George Brown ('Brown') is an agricultural expert from the United Kingdom, specializing in rearing of sheep and goats. The Malaysian government as part of its modernization of the agricultural industry, invited Brown to advice the Ministry of Agriculture to transform the industry with a view to be self-sufficient in mutton. Currently Malaysia imports a large portion of the meat from Australia.

Brown first arrived in Malaysia on 1.6.2009, and his stay in Malaysia was recorded as follows:

Year	Period of stay in Malaysia	Number of days
2009	1.6.2009-15.9.2009	107
2010	1.12.2010-31.12.2010	31
2011	1.1.2011-31.3.2011 15.4.2011-15.7.2011 22.7.2011-30.12.2011	90 92 162
2012	1.1.2012-29.2.2012 1.7.2012-30.8.2012	60 61
2013	1.1.2013-28.2.2013	59
2014	1.1.2014-31.3.2014 1.8.2014-31.8.2014 1.10.2014-21.12.2014	90 31 82

Brown was on a social visit for the period 1.4.2011 to 14.4.2011 when he visited his parents in England. Brown left Malaysia permanently on 21.12.2014 to the United Kingdom.

Required:

Determine the resident status of Mr. George Brown for the years of assessment 2009 to 2014 under the Income Tax Act 1967 (as amended). Indicate the applicable section where relevant.

(10 marks)

(c) Explain briefly five (5) taxes under the purview of the Inland Revenue Board of Malaysia.

(5 marks)

Continued...

(d) Malaysia introduced the Self-Assessment System for individual taxpayers in 2004.

Required:

Explain briefly how the Self-assessment System works and how this is different from the Official Assessment System that was in place before the year 2004.

(5 marks)

[Total: 25 marks]

QUESTION 2

(a) Mr. Thevan is an electronics engineer with a local aircraft company ('the company'). Mr. Thevan's employment income and benefits for the year ended 31 December 2014 was as follows:

(i) Gross salary: RM6,500 per month. His employer contributes 20% of his remuneration to the Employee Provident Fund.

(ii) Mr. Thevan gets an entertainment allowance of RM2,000 per month to entertain company clients as part of his job. During the year he spent RM25,000 on entertaining the company's local and foreign clients.

(iii) For travels to meet clients he received a flat rate travelling allowance of RM1,000 per month.

(iv) Thevan was selected as the 'Top Engineer of the Year' for the year ended 31 December 2014. He was given a certificate and cash of RM5,000 in appreciation of his contributions to the company.

(v) The company provides him with a car (but no fuel) for his personal use. The company bought the car in 2007 for RM240,000.

(vi) He is granted medical benefits that are capped at RM15,000 per year.

(vii) The company provided him a house and paid the rent of RM6,000 per month for the unfurnished house. He stayed in the house for the whole year.

(viii) Mr. Thevan had invested in a Taiwanese company and received a dividend of RM30,000 in September 2014. The money was remitted to his Malaysian account on 15 October 2014.

(ix) Mr. Thevan wrote a book on aircraft management and received royalty of RM50,000 for the year ended 2014 from the publication company.

(x) Mr. Thevan donated RM20,000 to an approved Malaysian charitable institution on 1 December 2014.

Continued...

Required:

Compute Mr. Thevan's total income for the year of assessment 2014.
Note: You should indicate by the use of the word 'nil' where appropriate, any item referred to in the question for which no adjusting entry needs to be made in the tax computation.

(20 marks)

(b) In January 2014, Mr. Tony and Mr. Hashim jointly tendered for a bridge and a tunnel project worth RM3 million. The project is to connect an existing highway to a nearby developing town in Pahang through some hilly terrain. In May 2015, the project was awarded to them. Mr. Tony will carry out works on the bridge construction and Mr. Hashim would build the tunnel. They will incur their own cost relating to construction and will split the profit from the project equally. They have a written agreement to that effect.

Required:

Explain briefly whether a partnership exists between Mr. Tony and Mr. Hashim.

(5 marks)
[Total: 25 marks]

QUESTION 3

Mr. Moorthy is an employee with the Morning Press Sdn Bhd and for the year ended 31 December 2014 his employment income was RM90,000. He contributes RM10,800 to the Employees Provident Fund. He has a disabled child aged 5 years for whom he has taken a medical insurance and paid a premium of RM 2,400 during the year. He has a personal life insurance for which he paid an annual premium of RM1,000.

His wife, Mrs. Moorthy earned RM50,000 for the year ended 31 December 2014 from her employment with KK Manufacturing Sdn Bhd, and contributed RM6,000 to the Employees Provident Fund. She took education insurance for the disabled child and paid RM4,500 as premium in 2014. She has insurance on her own life, and paid a premium of RM1,000 in 2014.

Required:

Compute the chargeable income in respect of the relevant individuals for the year of assessment 2014 in the following situations:

(i) Mr. Moorthy – separate assessment (child relief not claimed) (6 marks)
(ii) Mrs. Moorthy – separate assessment (claims full child relief) (6 marks)
(iii) Mrs. Moorthy – joint assessment with her husband (8 marks)

[Total: 20 marks]

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QUESTION 4

Ms. Gloria operates a mini-market in Kajang, and has been in business for many years. For the year ended 31 December 2014, she produced the following statement of income:

Ms. Gloria: Sole proprietorship - Mini Market
Statement of income for the year ended 31 December 2014

	Note	RM	RM
Sales			801,000
Less: Cost of sales			430,262
Gross profit			370,738
Add: Other income			
Interest	1	7,986	
Net rent	2	39,600	47,586
			418,324
Less: Operating expenses			
Salaries	3	126,400	
Finance charges	4	10,800	
Entertainment	5	14,688	
Depreciation		14,500	
Loss on sale of fixed asset		7,200	
Repairs	6	7,630	
Maintenance	7	10,940	
Bad and doubtful debts	8	10,200	
Motor vehicle expenses	9	5,200	
Audit fees	10	2,880	
Legal fees	11	4,776	
Donations	12	3,600	218,814
Net profit			199,510

Ms. Gloria had provided the following additional information pertaining to the business.

1. Interest

   The interest is from a fixed deposit maintained in China. It is a security deposit for stock orders. The interest earned on the deposit was remitted to Malaysia in September 2014.

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2. Rent

Ms. Gloria has rented out a single-storey house in Kajang. She has prepared the following accounts in respect of the rental income for the year ended 31 December 2014:

Rental income account	RM	RM
Gross rent		48,000
Less: Expenses		
Quit rent	250	
Assessment	850	
Renovation of porch	5,300	
Repairs of water pipe	700	
Replace old room air conditioner	1,300	8,400
Net rent		39,600

3. Salaries

Included in salaries is a sum of RM15,000 paid to a disabled employee certified by the Department of Social Welfare as physically disabled.

4. Finance charges consists of the following charges:

(a) RM2,800 paid to a local bank for a loan to invest in a Malaysian public listed company.

(b) RM3,200 are interest charges on a new loan during the year for working capital used in the business

(c) RM4,800 was penalty imposed for late filing of tax returns.

5. Entertainment expenditure

(a) Ms. Gloria entertained some regular customers and it was confirmed that it was wholly related to sales and it cost her RM8,688

(b) She also entertained some regular suppliers who extend her some easy credit terms for her purchases and the cost was RM6,000

6. Repairs

She painted the shop just before the Deepavali sales promotion. It cost her RM3,630. While painting, it was found that it would be good if the existing collapsible iron-gate is replaced with a new steel gate with electronic security features. This new gate cost RM4,000.

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7. Maintenance

This refers to general maintenance and upkeep of the shop that cost RM5,940. The shop zinc roof was also replaced as part of the maintenance at a cost of RM5,000.

8. Bad and doubtful debts consist of :

(a) RM1,000 written off. This was a personal loan extended to a regular supplier, who passed away suddenly in an accident in December 2014.

(b) RM3,200 written off. This was a sum owing by a customer who died of a sudden heart attack.

(c) A general provision of RM5,000 was made for trade debts outstanding as at 31 December 2014.

(d) A specific provision of RM1,000 was made for two debtors who have filed for bankruptcy sometime in November 2014.

9. Motor vehicle expenses consist of:

(a) RM1,000 for compounds on traffic offences including illegal parking.

(b) RM2,000 to repair her son's car that broke down on the highway recently. She was travelling in the car to a wedding. She agreed to pay the repair expenses.

(c) RM2,200 for repairing the mini-lorry used in her business

10. Audit fee

This was payment to an audit firm to set up a new accounting system for the business.

11. Legal fee

(a) RM300 was incurred to make claims for outstanding trade debts

(b) RM700 was paid to file a court claim in respect of a personal loan to a customer.

(c) RM1,776 was for an application to a local bank for a new loan.

(d) RM2,000 was payment to obtain a loan for investment in the local share market.

12. Donation

Ms. Gloria donated cash of RM3,000 to an approved Malaysian charitable body during the year. RM600 was paid in cash to a non-registered local Buddhist charity movement in which her sister is active.

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Ms. Gloria has claimed capital allowances of RM20,000 in respect of assets that were acquired in 2013 and prior years. There is a balancing charge of RM1,000 on the disposal of a refrigerator during the year.

Required:

Compute the total income of Ms. Gloria for the year of assessment 2014.
Note: Each and every item in the statement of account should be shown in your adjustment, and the same terminologies as used in said account or the notes should be used in the tax computation. You should indicate by the use of the word 'nil' any item referred to in the question for which no adjusting entry needs to be made in the tax computation.

(30 marks)
[Total: 100 marks]

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APPENDIX 1

Tax rate for resident individual (year of assessment 2014)

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0-2500	On the First 2,500	0	0
2,501-5,000	Next 2,500	0	0
5,001-10,000	On the First 5,000		0
	Next 5,000	2	100
10,001-20,000	On the First 10,000		100
	Next 10,000	2	200
20,001-35,000	On the First 20,000		300
	Next 15,000	6	900
35,001-50,000	On the First 35,000		1,200
	Next 15,000	11	1,650
50,001-70,000	On the First 50,000		2,850
	Next 20,000	19	3,800
70,001-100,000	On the First 70,000		6,650
	Next 30,000	24	7,200
100,001 – 150,000	On the First 100,000		13,850
	Next 50,000	26	13,000
150,001-250,000	On the first 150,000		26,850
	Next 100,000	26	26,000
250,000 – 400,000	On the first 250,000		52,850
	Next 150,000	26	39,000
			91,850
Exceeding 400,000		26	

Non-Resident Individual Rate (year of assessment 2010 - 2014)

Non-resident person other than companies: 26%

Capital allowances

	Initial Allowance	Annual Allowance
Office equipment, furniture and fittings	20%	10%
Plant and machinery – general	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

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Benefits in Kind (BIK)

(a) Household Furnishings, Apparatus & Appliances

	Types Of BIK	Annual Value Of BIK
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)

Gardener	RM 3,600 per annum
Domestic servant	RM 4,800 per annum
Driver	RM 7,200 per annum

(b) Value of motor vehicles

Cost of vehicles (new) RM	Annual Value of BIK RM	Fuel per annum RM
Up to – 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 – and above	25,000	3,000

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Personal relief and allowances applicable for the year of assessment 2014 and subsequent years of assessment

	RM
Self	9,000
Disabled self	6,000
Medical expenses for parents	5,000
Medical expenses expended on self, spouse or child with serious disease, (including up to RM500 for medical examination)	5,000
Basic supporting equipment for disabled self, spouse, child or parent of taxpayer	5,000
Fees expended for skills or qualifications	5,000
Expenses on books for personal use	1,000
Spouse relief	3,000
Disabled spouse - additional	3,500
Child (below 18 years old)(per child)	1,000
Children (above 18 years old) studying in local universities or colleges (per child)	6,000
Disabled child (each)	5,000
Disabled child pursuing tertiary education	6,000
Life insurance premiums and contributions to approved provident funds	6,000
Medical or education insurance premiums for self, spouse or child	3,000
Purchase of a personal computer	3,000
Amount deposited into SSPN	6,000
Purchase of sports equipment	300

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